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FROM AMBASSADOR GRAPPO TO REPRESENTATIVE JAMES MORAN

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TAGS: [OREP](#) [PGOV](#) [PREL](#) [ECON](#) [ETRD](#) [ELAB](#) [PHUM](#) [MU](#)
SUBJECT: SCENESETTER FOR CODEL MORAN'S VISIT TO OMAN

Summary

¶1. (U) Embassy Muscat and I warmly welcome you and your delegation to Oman. We look forward to your arrival on November 25 to discuss regional stability and economic development issues in the context of our overall bilateral relationship. In order to fulfill these objectives, we are seeking an audience with Sultan Qaboos bin Said, Oman's head of state, as well as meetings with Yousef bin Alawi, Minister Responsible for Foreign Affairs, Ahmed bin Abdul Nabi Macki, Minister of National Economy, Maqbool bin Ali Sultan, Minister of Commerce and Industry, and General Ali bin Majid al-Ma'amari, Minister of Royal Court. End Summary.

Strong Bilateral Relationship

¶2. (SBU) The United States enjoys a strong bilateral relationship with Oman, one that officially dates back to 1833 with the signing of the Treaty of Amity and Commerce. The Sultan and his government are decidedly pro-West and a firm American ally, as evidenced by our long-standing base access agreement with Oman, which was signed, in 1980, at a time when other Gulf nations were at odds with our policies. Oman has since supported all of our military requests, including substantial basing and access needs, during the height of Operation Enduring Freedom, Operation Iraqi Freedom, and Desert Storm. Given its geographical location, Oman will remain a key ally. In addition to presiding over the shipping lanes of the Strait of Hormuz, its location makes it a natural hub outside of the Gulf to support current or future operations in Afghanistan, Iran, Iraq, or the Horn of Africa.

¶3. (SBU) Our continued engagement with the Omani military continues to grow and deepen, especially with the presence of our War Reserve Materiel (WRM) sites, the recent purchase of 12 F-16s, and greater interest in cooperating on border security matters. Oman's use of FMF and FMS has proven effective, as the items they purchase are integrated smoothly into their military's operations. Oman's FMF budget has been in decline, however, with FY08 figures equaling \$10.1 million, down from \$19.8 million in FY05. Oman has also judiciously used its approximately \$1.08 million IMET allocation for U.S. military training, with its graduates rising to high positions within Oman's armed forces.

Regional Issues

14. (SBU) A traditionally staunch supporter of the Middle East peace process, Oman takes an objective, pragmatic and non-confrontational approach to pressing regional security issues. On Iran, Oman maintains a cordial, although mostly non-substantive, relationship with Tehran. The Sultanate prefers dialogue and cooperation on maritime security and other shared interests -- including the possible importation of Iranian gas -- rather than isolating the regime in Tehran.

The Omanis are concerned about the impact of Iran's nuclear enrichment program on the region's stability, but believe that harsher economic sanctions against Iran would not have a strong deterrent effect, as it might constrain diplomatic maneuverability in the long-term.

15. (SBU) Oman remains generally supportive of our efforts to promote security and political stability in Iraq, but is very concerned about the ability of Iraq's leadership to overcome allegiance to particular factions/groups in meeting this long-term goal. Like its neighbors, Oman is worried that extremism and sectarianism in Iraq could spill over into the region. Oman is not a source or transit country for either illicit funds or foreign fighters destined for Iraq.

16. (SBU) The Israeli-Palestinian conflict continues to be a source of high-level interest; the Omani government supports the President's November 26-27 Middle East peace conference in Annapolis. On Lebanon, Oman supports the government of PM Siniora (who met with the Sultan in January 2007), but hopes that the different Lebanese factions can reach a consensus to resolve the current political crisis there.

17. (SBU) Oman has been free from terrorist activity and works closely with the USG on terrorism-related issues. It is not a regional or offshore financial center; accordingly, it does

MUSCAT 00001061 002 OF 004

not have a significant money laundering problem. Its small banking sector is closely supervised by the Central Bank of Oman, and the government has issued a series of decrees to combat money laundering.

Economic Overview

18. (U) Oman's economy is based primarily on revenues derived from petroleum and natural gas, which are expected to account for 79% of the government's income in calendar year 2007. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels, though Ministry of Oil and Gas officials are optimistic that over 35 billion barrels remain to be recovered. The main oil producer is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production.

U.S.-owned Occidental Petroleum is the second largest producer in Oman, and has committed to investing over \$3 billion over the next several years in enhanced oil recovery efforts in mature fields.

19. (U) High oil prices over the past several years have led to solid Omani budget surpluses and GDP growth, despite declining oil production. Oman's economy, with GDP estimated at \$35.5 billion, grew over 15% in 2006, and is on track to gain at least another 8% for this year. The government intends to spend approximately \$4 billion more than in the past year on investment-related expenditures, with \$1.5 billion allocated to enhancing oil production capabilities and \$1 billion on gas production capabilities. The hefty investment budget reflects continued government emphasis on reversing declining oil production rates, locating additional pockets of gas reserves, and promoting diversification of the economy. Under the government's seventh Five-Year Plan, to cover 2006-2010, the average investment rate over the five-year period is estimated to be 24 percent of GDP.

Using Its Oil Wealth

¶10. (SBU) With its coffers flush with oil revenue, one of the government's highest priorities has been debt reduction. In 2006, the government used part of its estimated \$6.4 billion surplus to lower its debt from \$1.6 billion to \$1 billion. In addition to debt reduction, the government has used its surplus to strengthen a series of reserve funds. For example, part of the surplus is directed to the State General Reserve Fund (SGRF), its traditional reserve fund, which stood at over \$8 billion in mid-2006. In order to protect this equities-based fund for future generations, the government also created a \$1.5 billion emergency fund, to be used to finance future budget deficits, as well as a \$1 billion Oman Investment Fund to participate in primarily Asian industrial gas-based projects.

¶11. (SBU) The government is keen on using part of the surplus to shore up its 21-year old pension system. Previously, the government had not kept up with its funding obligations, leaving a deficit of over \$7 billion. The government is now starting to reduce this deficit with the goal of having the system fully funded by 2016. The government is also planning to consolidate its 14 pension funds into two, one for military personnel and one for civilians. To better manage pension investments, the government intends to establish one management board for each fund, which would then report to a pension board.

Moving Away from Oil

¶12. (U) In efforts to diversify its economy, Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over \$12 billion in government investment alone in the financing of several industrial projects, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel). In efforts to triple the industry's one percent contribution to GDP, the

MUSCAT 00001061 003 OF 004

government's tourism development company is moving forward with private investors on plans to construct 16 luxury hotels within the next five years. Oman is developing its port infrastructure with investments in facilities at Salalah, Sohar, and Duqm, and is promoting free trade zones close to its ports to develop downstream industries.

Free Trade Agreement

¶13. (U) In its pursuit to expand trade ties, Oman entered into Free Trade negotiations with the United States in March ¶2005. While we completed the FTA ratification process in October 2006, implementation of the Agreement remains pending. We have made considerable progress in working through issues related to intellectual property, customs, telecommunications, transparency, and labor, among others. Nevertheless, before setting an implementation date, we await the government's promulgation of draft tender, copyright, and industrial property laws, in addition to its adoption of telecommunications licensing and customs administration procedures. The Sultan has a personal interest in the FTA and has instructed his ministers to work actively for its success.

¶14. (U) The Omani government recognizes the importance of the FTA in raising the Sultanate's profile internationally. In addition to the direct U.S. investment that the FTA will attract, Oman has taken note of the spillover benefits that would be equally important. For example, Dow's planned investment in a petrochemicals complex had already spurred an additional \$350 million in investment from India. To attract further foreign interest, Oman will continue to promote itself as a country that adheres to the rule of law and facilitates the ease of doing business. Toward this effort, the government is planning a promotional roadshow of the U.S. in 2008, with proposed stops in New York, Chicago, Houston, Los Angeles, and Washington.

Labor Advances

¶15. (SBU) The Omani government introduced sweeping changes to its 2003 labor code to comply with the FTA's labor provisions. Under the reforms, workers now are allowed to organize unions, conduct strikes, and engage in collective bargaining - freedoms that place Oman in the forefront of labor rights in the region. Due to the quick pace of reform, however, government, business and labor representatives are uncertain about their future relationships with each other, and have reached out to the USG for support.

Elections

¶16. (SBU) Thanks in part to concerted government efforts to get out the vote, a larger than expected 62.7% of registered Omani voters reportedly cast ballots in the October 27 Majlis al-Shura elections. According to the results of a speedy electronic vote count, newcomers won 46 of the 84 seats in the Majlis; 38 members of the outgoing Majlis retained their positions. None of the 20 female candidates (including one women running for re-election) was elected, though the Sultan appointed 14 women to serve in the Majlis al-Dawla, Oman's upper chamber. By all accounts, voting went smoothly at the Sultanate's 102 polling places. Nevertheless, the newly elected majlis' authorities are limited to reviewing and making recommendations to the government on legislation related to a few areas, e.g., economics, education, health, etc.

TIP Concern

¶17. (SBU) While our relationship is generally free of bilateral irritants, the Omani government reacted strongly to its Tier 3 designation on the State Department's Trafficking in Persons (TIP) report. Nevertheless, the designation has gotten their attention. Since the designation, the Omani government has drafted, with the assistance of a prominent U.S.-based expert, an anti-TIP law that both criminalizes TIP and establishes a national committee to coordinate anti-TIP initiatives. The government, which sent a delegation to the United States to learn from and observe U.S. colleagues in

MUSCAT 00001061 004 OF 004

their handling of TIP crimes, plans to hold its first internal anti-TIP workshop in mid-December. The draft law and formation of a national committee represent significant steps by the government in addressing our concerns.